

DRINKING WATER STATE REVOLVING FUND ADVISORY COMMITTEE

Wednesday June 15, 2011
DEQ Metcalf Building Room 35
1520 East Sixth Ave., Helena, MT

ATTENDEES:

Committee Members:

Senator Don Steinbeisser
Representative Kathleen Williams
Rebecca Guay, Anaconda-Deer Lodge Co.
Todd Teegarden, DEQ
Anna Miller, DNRC

DEQ Staff:

Mark Smith
Gary Wiens
Robert Ashton
Carol Gilmore

Mark Smith opened the meeting welcoming attendees and addressing logistics.

Mark stated that each year we have to prepare our Intended Use Plan (IUP) to submit to EPA. This defines what we are proposing to do with funds for the upcoming fiscal year, showing what projects and what sorts of technical assistance activities we are planning to fund. When this plan is put together we go out for public comment on it and get this group together for additional input. This is then our operating plan for the upcoming fiscal year. Mark explained that we get a federal capitalization grant each year and we match it by 20% with General Obligation (GO) bonds and that becomes our total funding source for the year. The majority of this goes out for project loans and we also set-aside some of the funds for other activities like source water protection, public water supply program activities, contracts with Mid West Assistance, where we send people out in the field to help. Mark asked Anna to give financial status report.

Anna said that we just had the public hearing last Friday (June 10th) on the Intended Use Plan. No one showed up and Anna thought that was a good indication that we are doing things right. Anna said that the Department of Natural Resources and Conservation (DNRC) where she works and her staff administer the financing of the loans through the sale of the GO bonds that match the Federal Cap Grant. The idea behind the whole program was the federal and state governments are mandating what requirements the communities need to meet for water and sewer systems. This program gives them a low interest financing tool to be able to finance these improvements to meet the mandates.

Anna said the drinking water and waste water programs are a lot alike. The waste water program is simpler in that it doesn't have set-asides. The drinking water program with the set-asides is where the need for an advisory committee comes in.

Anna distributed a handout. The blue map is the drinking water loans that we have in place. Attached to it is the list of loans for the drinking water program. The program started in the late 1990's and we have a loan portfolio of about \$179,000,000 at this date. As you look at the loans we have made to cities and towns as large as Billings and as small as Ennis. We also loan to water and sewer districts. We get repeat business and this shows that they feel comfortable using this program. We take a comprehensive approach working with them, supplying them alternatives, talking to them about their project, helping them to be ready for the infrastructure

improvements and infrastructure planning for the future. These things say a lot of good and positive things about us.

The Waste Water program is the pink map and the green map shows the non-point source loans, which are private loans to farmers and ranchers. This program has been around since the mid 1980's. In the Waste Water program we have a loan portfolio of about \$346,000,000. Again we have a lot of repeat business. Kathleen asked Anna if when you say a loan portfolio, is that loans that are still not repaid? Anna said that is the total cumulative loans. When those GO bonds are issued to match the CAP grant, the CAP grants stays with the state. If we get 10 million in CAP grant we have to match it with 2 million dollars in GO bonds. We loan this out to the communities and when they pay us back we get to keep the 80% associated with the grant and 20% we use to pay back the GO bonds. So these are all the loans we have accumulated over the history of the program.

Anna said this program affects everybody as we have the cities and towns and water and sewer districts and we also have individual farmers and ranchers. For privacy purposes we don't put people names but if you look at RDBG 1 (on the green map) that is 1.5 million dollars we loaned to farmers and ranchers to put in more efficient irrigation projects. Montana has been recognized for this program working with cities and ranchers to improve water quality of our streams. This also conserves water.

Anna said when we first started our loan rate was at 4% and now the highest loan rate we have is 3.75%. With the American Recovery and Reinvestment Act (ARRA) you will notice they have a zero percent interest rate. With this stimulus money we were able to forgive some of the loan once they met all the requirements such as Davis-Bacon wages and buy American. Don asked about Senate Bill 87 and the 2010 grant? This bill gave us authority to do loan forgiveness for the 2010 grant and also the 2011 grant.

Anna also included a handout report of stimulus funds showing all the loans we made in Montana. In fiscal year 2000 we did \$30,000,000 worth of loans between the drinking water and waste water programs. In 2004 we did \$31,000,000, In 2008 we did \$41,000,000 so you can see our work has progressed dramatically. Then we had the economic problems that we had and in 2009 we only did \$23,000,000 worth of loans. In 2010 between our regular program and the stimulus we did \$84,000,000 of loans. Every \$40,000 is equal to supporting one job so we went from 575 jobs in 2009 to 2100 jobs in 2010.

Anna referred to the large spreadsheet. In Montana it is very likely that if a community comes to us to do a project they use funding from other sources. So if you look at the first spreadsheet on the drinking water program you have the name of the borrower, description, and total cost of the project. Anna reviewed some of these loans and the combination with other funding sources and explained how this combination allows for a lot more work to be done.

Mark added that we tried to spread the loan forgiveness funds around by putting a cap on the total of \$750,000. Mark said that this has worked out well for both the waste water and drinking water programs. The funds have all been used for the most part.

Anna said she added a couple of sheets to the handouts that show the work that we have done this year for drinking water and waste water. We have had a good year that will be done June 30th. We have done \$16,500,000 worth of loans for drinking water and \$42,400,000 worth of loans for the waste water program. Anna doesn't see the need for infrastructure tapering off anytime soon. We have a lot of stuff that is 30 years old around the state or that needs to meet new standards that are coming. Anna said that we have never had a default on any of our loans. We are audited once a year by the legislative auditors and this is a requirement of the EPA. We have had clean audits as far as she knows. Each agency is audited in the course of a regular legislative audit also. EPA also does a review once a year. Between all the audits around 80% of the transactions are looked at. So anything would be found quickly. Don asked if there was duplication amongst the audits? Anna said that they look for different things.

Anna said that we work with people to get these packages weaved together to make sure people know their deadlines and what qualifies. We do workshops in the fall and are scheduled now in October. They are free for communities and others to come to. We will be in Billings, Great Falls, Helena and Missoula. In the workshops we explain the program, what they will need to have, how to fill out the uniform application. All the programs use the same uniform application.

Anna said she has some flood information from communities that are under water and a good example of where the technical assistance really helps. When we do a project we have a manual that shows how the system works. So if they lose everything in their office we have a manual that shows how to run things and bring the system back into operation. If the operator is gone or out without a replacement they provide assistance.

Mark wanted to point out the geographic distribution of funds throughout the state. If you look at the maps in the handout you will notice that they help big and small communities in all reaches of the state.

Todd added that if you are a legal entity you are eligible to come to the program and get on the project priority list. Up until a couple of years ago we funded all that needed and wanted funding. Mark added that we haven't had to turn anyone away that wanted funds from the drinking water program but that might be different on the waste water side. Anna added that we have transferred funds between programs when there is more need in one than the other. If some projects are too large to fund at one time we have done them in phases.

Mark explained that as the loans are repaid the interest pays off the GO bonds and the principal goes back into the revolving loan fund to make more loans. This is the basis of the revolving fund. Each year as we prepare our intended use plan on our state fiscal year basis, it doesn't coincide with the timing for us getting the federal monies. We currently apply for the federal fiscal year's dollars around the end of March or in the spring. We like to have these funds available to us by July 1. This year we applied for 10 million and our grant is for \$9,286,000. According to EPA we should have these funds available to us sometime this week.

Mark pointed out that on page 18 of the draft IUP it summarizes the transfer of funds between programs. So far to date we have transferred about 11 million from waste water to drinking water and about 22 million from drinking water to waste water program. In the last few years there has been more demand in the waste water program. It helps to be able to transfer the funds when there is more demand in one program so the needs can be met.

Anna wanted to point out that if someone has a loan with us they draw the funds as they need them. If their prices are good and they don't need the entire amount they requested then they can tell us when they are done and they don't have to take any more than what they need. They can save on interest by not getting the funds until they are needed and our program earns interest on what's in the bank. So if you look and think we are sitting on 10 million dollars remember that money is obligated and just hasn't gone out the door yet.

Mark said that when we first set up this program we established a cap of around 5 million a community or half of the given year's federal grant, unless we could make the cash flows work otherwise. So far the cash flow has worked.

Kathleen said that you haven't had a default yet, but with changes in local tax revenue do you expect any in the future? Anna said that when we go in to do a loan we work with them. We look at their financing and what they have and what their rates and charges are. So they have to raise rates and charges in order to pay back the loan before we will give them the loan. All of this is looked at ahead of time. So she doesn't see a default in the future.

Todd added that some actually pre-pay if they can. Anna added that we do have a reserve fund set up from a fee on the interest and if our borrowers couldn't make the payment, we could draw from this account to make the payment on the GO bonds. Every community also has a reserve on their loan so they have a place to go.

The Intended Use Plan summarizes everything we have been talking about today. To the community, the main part will be the project priority list. When a community knows they have a project they give us a description and estimated cost and rates. We determine that, yes, it is eligible for our program and we rank it according to our ranking criteria. On the drinking water side the main emphasis is on public health. On the waste water side it is environment. More points are awarded if you have an existing contamination problem over someone that needs to replace a pipe. This list doesn't obligate anyone, it just recognizes a need. Every 4 years with EPA we do a more in depth needs survey. We need to put this project priority list out for public comment and the comment period closes on or about the 22nd of June. If a project wants to use us they have to be on the priority list. Based on readiness of a project through the contacts that we have had with individual communities we know are anticipating construction in the upcoming year, we design the subset of which projects we expect to fund this year. This is called the anticipated funding list on about page 6. It is hit and miss. Some will get funded and others won't be ready, and still others will come in and be added.

We can also give a lower interest rate to hardship or disadvantaged communities. We allocate around 20% of our cap grant for this. Starting last year we awarded the principal forgiveness instead of a lower interest to those eligible. So what we have done is if it's a million dollar project, we will give them \$500,000 in principal forgiveness and the other half will be at the regular rate. The hardship or disadvantaged community is defined by high rates and we use the same criteria as the Dept. of Commerce, which is essentially 1.4% of median household income. So if their annual user rates are higher than that, they qualify for the disadvantaged or hardship subsidy. In the past it has been lower interest rate and now it is principal forgiveness. We found

out just recently that the grant this year will contain the principal forgiveness provision so we will keep doing that.

Anna reviewed the priority list and pointed out the some on the list will use other funding sources or will not be ready to go this year.

Mark added that the projects will stay on the list until the project is completed, whether we fund them or not. They have to meet the legal definition of a public water supply, which means you have to have at least 25 people on the system.

The average payback period is 20 years. Mark said that we can go up to 30 years if the infrastructure has a useful life of 30 years.

We do refinance loans for a community. For example, if they have an old loan that is at 7%, we can bring that rate down for them. Todd said that refinance projects are toward the bottom on the priority list as the top thing is public health and we want to address that first. Mark agreed but that refinancing existing loans is an eligible need if cash flows allow.

Mark said that when the priority list is compiled that logically you would fund from the top ranking down. But this doesn't happen. What we do is by pass higher ranked projects so that we can fund projects that are ready to go, and follow procedures for doing this. So far the drinking water program has not had to turn anyone away. But if this changes then we will have to rely more on the priority list.

With the stimulus funding one component was to fund green projects, so these projects also were eligible for principle forgiveness. The core ranking criteria is still public health. The primary green criteria that we've experienced is water conservation, for example replacing leaking main lines. You have to quantify things to justify a project as green, such as the gallons of water conserved and also the savings on pumping and treatment costs.

Don asked if the uniform application covers all of these criteria. Mark said that yes it does and they can tell if the project fits in these categories. If something is lacking then more information is requested to make sure it meets the qualification. A lot of dialog flows from day one. Anna added that if we notice something like high rates we advise them to apply to CDBG or TSEP for grant money.

Lunch

Mark added there is a lot of other information included in the Intended Use Plan. Mark talked about the tables that show the historical funding and the anticipated funds for the next year. There is another table showing the costs associated with the set aside funds. This year we are funding those with around 17% of the federal grant.

Kathleen asked about the frequency of how often this group meets. Mark said it's once a year at this time. A lot of follow up information and communication will be sent to the committee. Todd commented that at this time it's an annual event but if the need should arise we will call more

meetings. Mark added that we will also do an annual report and this will be sent to this committee.

Don asked how this committee came about and how long has it been in existence. Mark said from the beginning. It is in the statute that a committee be created, and defined two legislators, the League of Cities and Towns, and MACO be represented. So unless there is a law change it will remain. Todd added that the waste water program does not have an advisory committee. The purpose of the committee is to address public comments.

Mark said that we feel set asides are worthwhile and would like to continue them. Our operator certification program is one of the best in the country and has been in existence since before it was required. Because of this program we have people operating these systems that know what they are doing. They have continuing education and know what's going on. We do have some of the best run systems and the most knowledgeable people running them. We can throw a lot of money at projects but when it comes down to the people turning the wrenches and the valves, they know how to properly treat and deliver safe water. To supplement that program and their training activities we have provided funding to them from the beginning. Mark referred to the table on page 16 of the IUP that shows the dollar amounts for the set-asides.

Mark said the next set-aside is the Public Water Supply program and it is the regulatory part of DEQ drinking water division. They focus primarily on compliance regarding testing and monitoring. They also do outreach efforts such as technical assistance, comprehensive performance evaluations where they will send a team in to help optimize the plants performance. There are times where a new plant is not necessary and the existing plant just needs adjustments and tweaking to operate correctly. They also provide a monitoring schedule of what tests and samples are due for the operator to meet compliance regulations. The regulations are overwhelming and this really simplifies it for the operator.

There is a 10 percent cap on what we can set-aside for the total amount of a group of four programs. They are the public water supply program, source water protection program, capacity development and operator certification. They cannot exceed more than 10% of our total grant amount.

This grant money will eventually go away and we will operate solely on the revolving account without federal funds. We don't know when that will be. At that point our set aside funds from the CAP grant will no longer be available for these programs.

The Source Water Protection program started out to be a preventative action program. They manage the source water to prevent any contamination event from ever occurring. What they have done from the beginning is go to public water systems and complete a delineation and assessment of the water source. This defines the watershed or wellhead area and defines any potential contaminant sources in the area. They work with the community to manage the area to protect the water from any potential contamination. They have completed the delineation and assessment reports for existing systems and now work with the communities on protection plans and things like well locations. Joe Meek is the program manager for this program.

We have two more set-asides that we provide funds for contracted services. Technical Assistance of which provides hands on assistance, and the other is Capacity Development. That is a federal term, but the capacity development contract provides financial and managerial assistance.

Robert Ashton is overseeing the Capacity Development program. Rob said that they contract with Midwest Assistance Program and monitor their work by sending out questionnaires or surveys to determine how their work is going and what people generally think of it, and analyze the data for the decision to extend the contract for a given year. Rob distributed a handout. The first page shows the basic information on the contract. It shows the percentage of surveys we received back regarding the technical assistance program. The Midwest Assistance Program contacts the water systems to seek out if they would like assistance or an inspection. They do this on their own and then physically inspect the water systems from the source to the distribution and treatment system. Rob referred to the handout and the column with the average hours. This is the hours the visit took in total. This includes preparation time, travel time, time on site, follow up time, and reporting time. They are required to submit a report to us. The second page of the handout is the questions that are sent to the system to track how they feel the technical assistance provider is doing. Over the course of the years they have received good remarks on this assistance. They did visit more systems this last year than they have previously done. The Public Water Supply Program has asked for our help with Microscopic Particulate Analysis (MPA) testing, that is part of the source water studies that EPA wanted the state to get caught up on. MAP was able step in and helped because they have the equipment and knowledge and we allowed some of that work to be charged to us. A lot of our systems are so small they just don't have the expertise to do the things EPA may ask for, so it's nice to have qualified people to help them. On the back side of the survey form they have space to write in comments. There have been comments on how they appreciate the help they get. This is the last year we renew with MAP and we will go out for a Request for Proposal (RFP) next winter.

Gary Wiens oversees the contract that is also held by MAP on the financial and managerial assistance. They are in their fifth year of a seven year cycle. Gary distributed a handout. Gary said they have received very positive feedback from the surveys that he sent out. This program appears to be working very well. Gary said the final page lists the systems that received help this last year. From April 2010 to March 2011 they completed 33 system assistances. They will do things like assist a manager to write down procedures and help systems in the formation of water districts. They assist with personnel issues, rate structures, accounting procedures, how to apply for grants, update bylaws, etc. Rob noted that Gary has more input on the needs of the system and communication with the systems than Rob does with his program. Whatever they need help with, MAP will do it. It was noted that the water systems are more receptive to help from the contractor than they are from the state agency. They are thinking about combining the two contracts and doing the RFP together for both programs. No decision has been made on this at this time.

Mark said this covers everything on the agenda and he welcomes any comments or input.

Meeting adjourned.